March 24, 2009

To our AVEC membership:

After two years of dismal financial operating results, we worked with our lender (USDA-RUS) and our independent accountant to overhaul our depreciation accounting, which resulted in positive operating margins of $1,475,000 in 2007. Non-operating margins were $913,000, resulting in total year-end margins of almost $2,400,000. We sold 64.5 million kilowatt hours in 2007, only 1% more than in 2006. Like last year, it is clear that our members continue to conserve on their electricity usage.

Fuel costs continue to rise dramatically, with the cooperative spending $2.5 million more for fuel than in 2006 or 30% more per gallon in one year! Unfortunately, fuel is expected to continue to increase in cost as the turmoil in the world oil markets continues.

Recognizing the financial hardships of our membership who are struggling with the enormous increase in the cost of energy, the AVEC Board of Directors made a decision to return $1.13 million of Patronage Capital to the members in December. The amount retired was 1/15th of all accumulated capital credits.

Our total utility plant investment at the end of the year was $93.6 million - $1.6 million less than the year before. Although we added more than $18 million in plant, $14.9 million of that was grant funded and another $5 million was removed from service, resulting in a net reduction to total plant.

In 2007, AVEC received $15.6 million in grant funds for Denali Commission energy projects. This brings the total awarded to us by the Denali Commission to $119.4 million. We have matched this money with $5.7 million from other grantors as well as with $11.8 million of AVEC member equity. To date, we have spent $116.4 million on Denali Commission energy projects We were also successful in getting IRS approval for $6.1 million in Clean Renewable Energy Bonds for wind projects in Gambell, Savoonga, Chevak, Hooper Bay, Mekoryuk and New Stuyahok. This is money that would have to be paid back with interest, and we will be evaluating whether the projects are cost effective before we proceed with them.

Power Cost Equalization was funded at $25.6 million in FY 2007, which funded PCE at about 95% for the entire year. FY 2008 was funded at 100%, but as the cost of fuel continues its upward march, the program is presently $1.2 million short of full funding for the year. Additional funds are being sought through the supplemental budget, which is currently under consideration in the House of Representatives.

Robert L. Beans, Chairman of the Board
Meera Kohler, President and CEO

Front cover photo courtesy of Greg Lincoln with The Delta Discovery. The girls are: (need to look up their names.....)
AVEC’s Board of Directors awarded ten $1,000 scholarships totaling $10,000 to students from ten communities.

**CAPITAL CREDITS**

AVEC’s Board of Directors did not approve the retirement of capital credits this year due to financial constraints caused by the unprecedented and extremely high cost of fuel.

**WIND CO-OP AWARD / NATIONAL TV SHOW**

AVEC was awarded the 2007 Wind Cooperative of the Year Award from the Department of Energy. AVEC was featured in a History Channel show titled “Tougher in Alaska: Electric Linemen.” Once again, AVEC won numerous statewide and national communication awards.

**ELECTRONIC METERS**

Electronic meters with automated reading capabilities and remote disconnect features are being installed in every community. Deployment of meter infrastructure began last summer with Ambler, Selawik, Nightmute, Kivalina and Savoonga receiving new meters. Installation of these cost-saving meters should be completed by year end 2010.

**TOTAL MEGAWATT HOURS GENERATED AND SOLD**

In 2008 AVEC generated a total of 72,572 MWH, including .5 MWH of net wind power generated by the Shaktoolik Native Corporation in Shaktoolik. AVEC wind projects in other communities showed an increased generation of 25% in 2008. AVEC sold 68,055 MWH, for an increase of 5.6% over 2007.

AVEC has shown a steady increase in fuel efficiency over the years, resulting in substantial savings in fuel costs. Our fuel efficiency has more than doubled since 1975, which means we consume less than half the fuel to generate power today than we did in 1975. At today’s extremely high cost of fuel, this saves our communities thousands of dollars annually. This is achieved by upgrading our engines and power plants and using the latest technology available. Using less fuel also reduces the amount of bulk fuel storage required to generate power. Another major cost savings occurred when another old power plant in Nightmute was turned off, saving tens of thousands of dollars in operating costs each year. Nightmute now receives power from Toksook Bay’s new diesel plant and wind turbines via a tieline.

**SAVINGS FROM RENEWABLE ENERGY**

Thanks to funding received mainly from the Denali Commission, AVEC installed wind turbines in five communities with interties to three other communities. In 2007, wind turbines in three communities generated 1,100,000 kWh (net) and displaced 81,481 gallons of diesel fuel, saving more than $200,000 dollars in diesel generating costs. Including wind turbines that came online late in 2008, AVEC’s total combined net wind energy production is 1,442,275 kWh. Total combined net energy production (wind and diesel) was 13,682,946 kWh. Wind displaced 108,057 gallons of fuel, saving $493,000 in fuel costs.

**TOP 10 PLANT OPERATORS OF THE YEAR**

Each year AVEC selects the Top 10 Plant Operators of the Year in order to reward the operators with the best performance for the past year. The Top 10 Plant Operators receive a 3-in-1 winter jacket along with a cash bonus.
As of December 31, 2008

The system overall showed an increase of 53 new consumers for the year. Thirty-one villages showed an increase in consumers, six villages remained the same and 16 villages had slight decreases in consumers. The total number of meters connected is a record high at 7,585.

<table>
<thead>
<tr>
<th>Village</th>
<th>Consumers</th>
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<tbody>
<tr>
<td>Alakanuk</td>
<td>181</td>
<td>Hooper Bay</td>
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<td>Huslia</td>
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<td>Kaltag</td>
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<td>Kasigluk</td>
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<td>Wales</td>
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Lineman Jeff Ryan heads out to make repairs pulling his gear and equipment behind him on a sled. Our guys are tough!
### Source of Electric Revenue

- **Commercial**: 16.87%
- **Residential**: 44.69%
- **Other Public Facilities**: 18.46%
- **Street Lights**: 1.54%
- **Miscellaneous Power Production Expense**: 12.72%
- **Plant Operator Payments**: 5.52%
- **Generation Plant Maintenance**: 4.29%
- **Tank Farm Maintenance**: 1.84%
- **Depreciation & Amortization Expense**: 9.12%
- **Taxes & Other Deductions**: 0.12%
- **Interest Expense**: 5.29%

### Total Cost of Service by Item

- **Consumer Services**: 3.67%
- **Administration & General**: 5.80%
- **Depreciation & Amortization**: 9.12%
- **Taxes & Other Deductions**: 0.12%
- **Interest Expense**: 5.29%

### Assets 12/31/08 vs 12/31/07

- **Total Utility Plant**: $114,024,578 vs $108,496,970
- **Accumulated Provision for Depreciation**: $69,525,874 vs $67,146,818
- **Net Utility Plant**: $44,498,704 vs $41,350,152
- **Other Property & Investments**: $4,886,287 vs $5,890,021
- **Deferred Debts**: 30,206 vs 70,504
- **TOTAL ASSETS**: $81,067,813 vs $70,809,822

### Liabilities 12/31/08 vs 12/31/07

- **Equities**: $34,226,683 vs $33,652,919
- **Long Term Debt**: $28,858,962 vs $33,918,408
- **Deferred Credits**: 269,945 vs 292,912
- **TOTAL LIABILITIES**: $81,067,813 vs $70,809,823

### Equities as Percent of Assets

- 12/31/08: 42.22%
- 12/31/07: 47.53%

### Statement of Operations

- **Operating Revenue**: $37,514,923 vs $30,958,904
- **Cost of Power**: 26,201,947 vs 19,851,109
- **Distribution Expense**: 1,258,298 vs 1,491,230
- **Consumer Expense**: 1,324,291 vs 1,094,551
- **Administrative & General Expense**: 2,094,147 vs 1,804,035
- **Depreciation & Amortization Expense**: 3,295,617 vs 3,331,818
- **Taxes & Other Deductions**: 44,250 vs 333,773

### Total Cost of Electric Service

- 2008: $36,129,331
- 2007: $29,483,670

### Total Margin

- 2008: $573,777
- 2007: $2,388,347
**Distribution Projects**

Installed 55 new residential services; built three-phase line extensions to new schools under construction in Savoonga, St. Michael and Noatak; installed eight services to other school facilities in Brevig Mission, Kasigluk, Teller, Minto and Huslia; installed or replaced 13 transformers not related to new service work orders; relocated services to six homes in Quinhagak, St. Mary’s, Huslia, and Kiana; installed 26 new street lights in four villages; installed 20 services to community or commercial buildings including fishery support, church facilities, youth centers and Headstart buildings, telephone facilities, stores and water and sewer facilities. Although there were not as many airport, clinic and water and sewer facilities connected this year compared to years past, we did connect 23 temporary services for construction camps that are building facilities to be connected in the future.

Transformer work - Alakanuk and Emmonak.

**Denali Commission/ Tielines**

Funding for the Denali Commission energy program was cut 60% in 2008 so AVEC’s planned construction program was severely cut back this year. Crews focused on completing projects in progress, including cleanup of work sites and replacing the distribution line in Old Kasigluk. The tieline between Toksook Bay and Nightmute was energized in April.

**Generation Projects**

**New Diesel Power Plant Completed**
Savoonga and Gambell

**New Diesel Power Plant Under Construction**
Chevak, Nightmute (standby plant only)

**New Automated Power Control Module Under Construction**
Hooper Bay

**New Bulk Fuel Tank Farms Built or Under Construction**
Mekoryuk, Brevig Mission, Nightmute

**Bulk Fuel Tank Farms Upgraded or Under Construction**
St. Mary’s, Quinhagak, Emmonak, Hooper Bay, St. Michael, Eek

**Wind Monitoring Stations**
Completed: Chevak, Gambell, Hooper Bay, Mekoryuk, New Stuyahok, Quinhagak, Savoonga, Shaktoolik, and Togiak.

Ongoing: Emmonak, Pitkas Point

New: Old Harbor, St. Mary’s, Marshall, and Noorvik.

**New Wind Turbines Installed**
Hooper Bay 3 Northwind 100s
Savoonga 2 Northwind 100s

**New Engine Startups**
Savoonga Detroit Diesel Series 60
Savoonga Cummins QSX15
Savoonga Cummins QSK23
Nulato Detroit Diesel Series 60
AVEC MEMBERS AND EVENTS

Community Events

Gambell students, elders and residents built a traditional angayapik. Above right: cousins Mya Cross (left) and Brandi Apassingok are prepared for Gambell’s cold weather.

Above: scenes from a summer event in Brevig Mission.

Baby foxes in Ambler.

Above: a picnic in Kiana for newly trained plant operators, Dustin Penn (left) and Charlie Atoruk. Norm Miller of AVEC performed the training.

Above: photos from the spring cleanup in Alakanuk.

Below: photos from a bicycle race and cross-country running race in Chevak.

Annual Meeting

AVEC board members. Left to right, standing: Walter Sampson, Charlie Curtis, Phyllis Clough, Fred Sagoonick. Seated: Mike Prince, Robert Beans, Helena Jones.

Left to right, standing: Michael Murran; Patrick Tall; Frank Flynn; Bobby Wyagon. Seated: Denis Shelden; Joe Maillelle Sr; Mary Belkoff Peters; Lydia Mashburn.

Plant Operator Training - Ambler and Kiana

Above: Helena Jones stands with Rodney Tickle, Albert Penn and Lorral Griest, who received training and helped install Ambler’s AMR meters.

Above: photos from a bicycle race and cross-country running race in Chevak.

Winter Work

Field employees work outside in a variety of extreme weather conditions. Left - Tru Knudsen is on top of a snow-drift-covered roof trying to check out a service entrance. Below - a lineman gives a chilly, positive thumbs up!